



Second submission to the Productivity Commission Inquiry into First Home Ownership

February 2004

Introduction

This submission by Darebin City Council provides further information in response to the Discussion Draft released by the Productivity Commission in December 2004. This submission also provides an overview of the key points raised by Council officers at the public hearing held in Melbourne on Monday 9 February 2004.

Background

The City of Darebin is located in the inner north of Melbourne. Darebin has a culturally diverse and ageing population, with relatively high levels of socio-economic disadvantage and poverty.

The housing market in Darebin is characterised through slightly higher proportions of households who own their home outright (43%) than the Melbourne average. Conversely, Darebin has lower proportions of households with a mortgage (18%) than the Melbourne average.

Until recently, Darebin has been regarded as having relatively affordable housing. Between 2001 and 2002, house prices in Darebin increased at double the metropolitan average.

Darebin is also an area with relatively high levels of rental housing. In 2001, 25% of households resided in private rental housing and 6% of households lived in public rental housing. Private rental costs in Darebin have risen at rates generally above the Melbourne average since the late 1990s, in line with rising house prices. This trend reflects the increased desirability of inner areas of Melbourne such as Darebin for both investors and renters.

Key trends

Darebin's submission focuses on the barriers that many households are currently experiencing in accessing or maintaining home ownership, due to rapid increases in house prices and rents in the private market.

Coupled with this trend is reduced access to government-funded social housing. There has been a 30% decrease in Commonwealth State Housing Agreement (CSHA) funds since 1996/97. Much of the \$300 million spent per annum in Victoria on public housing is directed to upgrades or maintenance of existing stock.

Due to restricted access to home ownership in the private market and government-funded social housing, significant numbers of low to moderate income households in Darebin will have no choice but to rent privately in the long term. These groups increasingly will be competing with higher income groups who are able to exercise more choice in renting privately, in terms of location and access to services.

As a consequence, Darebin is currently experiencing a 'housing crisis', in the sense that there is a critical lack of affordable housing options, both in the private market (lower end of private rental) and social housing provision for low to moderate income groups. Single person households are particularly affected as it has been demonstrated that this group experiences significant affordability problems in the private market, even after receiving Commonwealth Rent Assistance (CRA).

Current trends, such as gentrification, and government policy responses, such as urban consolidation, mean that the affordability crisis that exists in Darebin will continue into the foreseeable future. Areas such as Darebin will experience increased tensions through encouraging medium density housing in established areas to maximise physical and social infrastructure and ensuring maintenance of residential amenity, including affordable housing supply.

Ultimately, this will result in further displacement of low income households to the urban fringe and increased social polarisation within Darebin. It is evident that in many inner urban areas of Melbourne, such as Fitzroy and Collingwood, differential access between socio-economic classes to employment, education, health and other essential services is occurring as a result of housing sub-market trends.

Federal and State government policy responses

Interventions to address housing market failure are generally the domain of Federal and State governments in Australia. In Darebin's original submission, Council argued for a range of government policy interventions, including:

- Development of a National Housing Strategy
- Review of First Home Buyers Grant, negative gearing and stamp duty arrangements
- Review of CRA and increased funding for CSHA to increase supply of social housing and incentives for private sector investment in affordable housing

Federal governments in Australia have traditionally provided greater subsidies to home owners through indirect benefits arising from the taxation system than direct forms of housing assistance, such as social housing or rent assistance. Supply-side responses such as public housing have appeared to be out of favour with successive Federal governments over the past decade or two, despite the Industry Commission's finding in 1993 that public housing was the most efficient way of increasing access to adequate housing.

It is difficult to maintain affordability in the private market over the long term, without significant government intervention such as increased supply of social housing. This is crucial to provide some level of counter-balance to 'boom/bust' housing cycles.

Local government roles

Council acknowledges that local government roles in housing are limited – Council is not a direct provider of social housing and has limited powers to intervene in housing markets. However local government has key roles beyond that of a regulatory planning authority, such as forward planning (strategic and social), research, coordination, facilitation and advocacy.

Good strategic planning at both the State and local levels is essential to ensure that the economic benefits of housing development are balanced with environmental, social and cultural considerations that enhance broader community health and well being. Planning decisions shape urban form and liveability for decades; hence it is important for local governments to make well-informed decisions based on sound research and policy objectives.

Developer contributions are an important mechanism in ensuring that the benefits and costs arising from a particular development are equitably determined – it is difficult to develop a ‘one-size fits all’ system, hence there is a need for some flexibility in determining contributions on a case by case basis. It is noted that in the Discussion Draft, it is conceded that developer contributions have not contributed significantly to house price increases.

A specific example in Darebin highlights a situation where Council is of the view that there is a strong case for negotiating developer contributions that contribute to the health and well being of the community over time. In the case of Lancaster Gate, a housing development located at the former Larundel psychiatric institution in north east Melbourne, the developer contribution negotiated with VicUrban comprised of handing over a derelict administration building to Council. While the developer contribution in dollar value terms may be over and above that of the standard formula applicable in Victoria, the building in itself requires significant capital outlays to make it usable. Council expects to contribute in excess of two million dollars to upgrade the building for the purposes of a multi-function community facility. The point here is that while the developer in this case may well pass on the costs associated with the building to home purchasers, without significant capital funds for the upgrade of the building, the contribution in itself would be relatively unusable for social infrastructure. This arrangement negotiated between Council and the developer provides for a mix of upfront contributions from home purchasers on-site for the building and user charges for the upgraded facility over time borne by the broader community.

Local government is increasingly playing an advocacy role in lobbying Federal and State government on housing issues; for example, in seeking increased CSHA funding for social housing provision. State housing authorities across Australia are encouraging local governments to play an increased role in facilitating affordable housing outcomes. Such initiatives include local government involvement in joint venture partnerships with community housing providers; or using planning mechanisms to broker affordable housing proposals with private developers, such as inclusionary zoning or density bonuses.

The reality is that local government has scarce resources and competing priorities for land use. Darebin has engaged with the Victorian Government's Social Housing Innovations Project, with Council leasing two parcels of land to a community housing provider for the construction and management of four community rental housing properties. While this initiative is important in the sense of contributing Council assets to much-needed social housing in the municipality, major capital funding is required on the part of Federal and state governments to significantly increase the supply of affordable housing on the ground.

Conclusion

Darebin's submission essentially focuses on the impact of rising house prices on low to moderate income households and their ability to access affordable and appropriate housing in the municipality. With limited access to government-assisted housing, there is concern that increased gentrification both as a driver and an outcome of the housing market boom will displace many households to areas with relatively poor access to essential services, as well as resulting in increased levels of poverty and social polarisation within Darebin.

Council is of the view that all tiers of government do have a role to play in housing policy, given that housing is a cornerstone to health and wellbeing, as well as accruing economic and social benefits and costs to both individuals and the broader community. A comprehensive National Housing Strategy involving government, industry groups and NGOs is required to inform the development of integrated strategies to address housing affordability issues on a range of fronts.

Further information

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